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OFFICE OF FINANCIAL AND INSURANCE SERVICES
DEPARTMENT OF CONSUMER & INDUSTRY SERVICES
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COMMISSIONER

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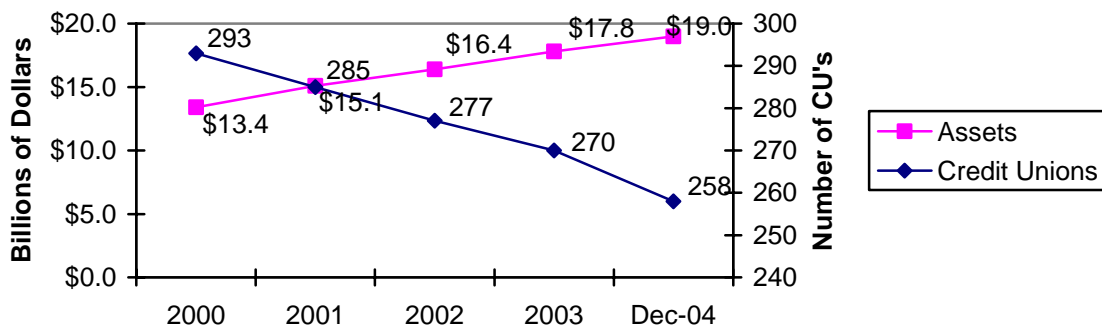
TO: The Board of Directors and Management of Michigan State-Chartered Credit Unions

SUBJECT: 2004 Fourth Quarter Financial Results

The Office of Financial and Insurance Services (OFIS) compiles call report information to monitor Michigan state-chartered credit unions, both individually, and in the aggregate. The purpose of this letter is to share some overall industry trends and highlight certain areas of particular concern based on the December 31, 2004 call report filings. The following information and analysis does not include CenCorp Credit Union.

Consolidation Continues

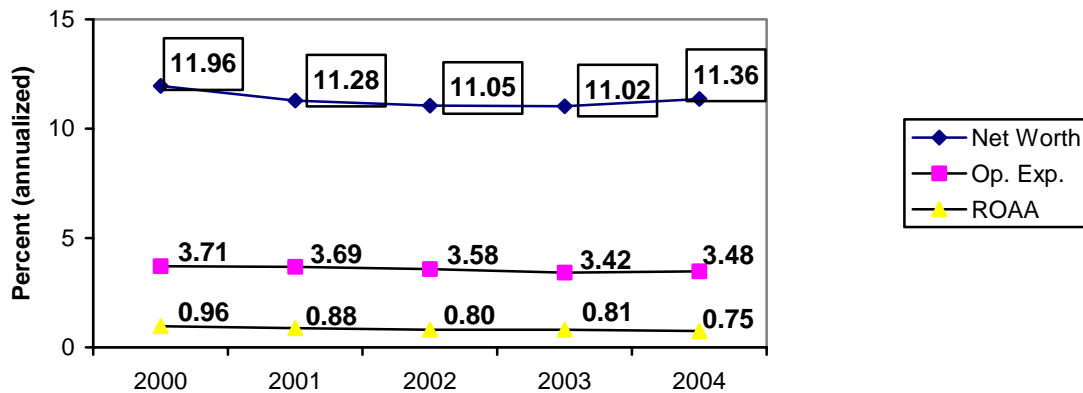
The number of Michigan state-chartered credit unions declined by four during the fourth quarter of 2004, bringing the total to 12 for the year. This is largest drop since 1999. However, asset growth remained stable at 6.70% for the year.



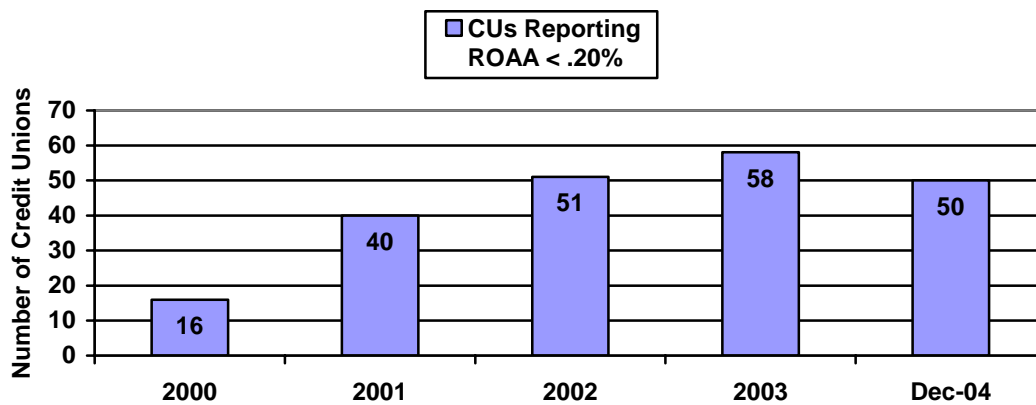
The number of credit unions reporting a decline in assets increased from 10 at year-end 2003 to 27 at December 31, 2004.

Net Worth Remains Strong, But Earnings Problems Continue

Net worth increased from 11.02 at year-end 2003 to 11.36 at year-end 2004. The increase is encouraging considering the consistent growth in assets. Operating expense and return on average assets remained stable during 2004.



The number of credit unions reporting an ROAA of less than .20% remains high, but has declined during 2004. There are now 50 credit unions reporting an ROAA of less than .20%, down from 58 at year-end 2003.



Interest rate risk management continues to be crucial. Lagging interest rates prolong the possibility of rapid increases in rates. Management must diligently monitor and manage interest rate risk while improving asset yields.

Letter 2005-CU-02
February 23, 2005
Page 3 of 3

Asset Quality Remains Sound

The aggregate delinquency and net charge-off ratios remained stable at 1.03% and 0.55% (respectively) during the year. However, the number of credit unions reporting adverse trends in these areas increased during the fourth quarter of 2004.

Conclusion

Overall, the financial condition of Michigan state-chartered credit unions remains strong. Directors and management teams must monitor the financial condition of their credit union on an ongoing basis. Sound risk management includes timely identification of potential risks and adverse trends, and taking appropriate steps to ensure risks are properly managed.

I hope the information in this letter is helpful in making informed business decisions. Operating a financial institution safely and soundly requires diligence in risk identification, measurement, and management. The stresses evident in the September 2004 statistics highlight the continuing need for sound risk management practices.

Sincerely,

Roger W. Little, Deputy Commissioner
Credit Union Division